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CAN WE BUILD LOCATION ADVANTAGES? LOCAL POLICIES FOR INDUSTRIAL COMPETITIVENESS

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Industrial development through localized resource concentration

Localized resource concentration and selective targeting lie at the core of modern regional policy, and it is the specific nodes of socio-economic networks which become the foci of intervention (Lengyel, 2010). City-regions, regional innovation systems, knowledge networks, clusters and industrial districts are different but connected expressions of this idea. Competitive and resilient industrial locations need to be globally connected, but they must also compete with the massive and generic cost-based competitiveness and scale economies of FDI plants and national champions in Far Eastern emerging economies.

The most efficient location advantages today are localized (embedded in a specific territorial context), quality-based (transcending low costs), bundled (extending to multiple factors), and hard to reproduce (representing a specific combination of assets, skills and environmental conditions). They are beneficial for both FDI and local enterprises, facilitate upgrading towards higher value-added production, and unlock "high-road" development paths which combine competitiveness with social cohesion. However, they are also hard to copy: they cannot be readily transplanted, only adapted piecemeal to different socio-economic contexts.

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Successful local development is the development of an inter-related system, consisting of an industrial base, a knowledge base, and a set of institutions. Together, they form an organized system (industrial district) characterized by mutual dependencies and co-evolutionary development, where changes in one sub-system also change the others. The location of developed industry encourages knowledge accumulation, collective learning and the spread of new governance models; an improving knowledge base can attract new industrial functions and improve governance quality; and good governance can facilitate effective socio-economic restructuring. Co-evolution can thus create virtuous or vicious circles: on one side we find Europe's successful industrial districts; on the other, Old Industrial Regions with adaptation failures, and underdeveloped peripheries. Market processes and policy can both intervene through any of the aforementioned sub-systems, and alter the development path of an industrial district; achieving positive change through spillover and multiplier effects.

Constructing advantageous industrial locations hinges on two distinct, but compatible philosophies. First, existing location advantages can be bundled and organized into an appropriate framework, through which they can be offered to external investors and local companies. Industrial parks are typical examples of this alternative, offering the advantages of an industrial district on an investment site; creating a good "interface" between investor and environment, and facilitating the former's integration into the local economy, occasionally with services like knowledge transfer, incubation or business support. However, though industrial parks are ubiquitous in Central Europe, successful ones are much less common. Most can only offer real estate, basic infrastructure and cheap, low-skilled labor. Effective failures (zero or few companies) are very common; parks with a significant local employment role less so, and parks with a regional industrial integration role are quite rare. The second philosophy of location development focuses on developing the components of an industrial district,

and using industrial parks (and other investment locations) as nodes in the development process. The improvement of the local factor supply, particularly skilled labor, is the cornerstone of indirect development, and presently the most successful medium-term strategy in Central European investment attraction strategies.

Beyond this, there is also a need to develop socio-economic networks and achieve upgrading in a location-specific way. The successful industrial district is not merely a collection of high-quality resources, but a framework of dynamic adaptation and territorial differentiation. Fitting existing development paths to new circumstances, and exploring new possibilities (taking advantage of favorable alternative paths) is the key to continuous adaptation. However, exploiting virtuous path-dependencies is always easier than path creation, particularly in under-capitalized post-socialist local economies. The end goal is to create a unique, place-specific arrangement of strong location factors which can accommodate FDI units and local enterprise networks, and embed these business units in the territory to prevent their disappearance under cost-based competition. Although they represent no theoretical novelty, the smart specialization strategies (S3) of the EU are appropriate and useful frameworks of innovative regional policy tailored to local capabilities and local circumstances.

Local upgrading and network-building in Győr

The industrial development of Győr, one of Hungary's eight second-tier cities (pop. 129,000), presents an instructive case of successful FDI-driven industrial restructuring, and gradually, upgrading. Through its modern history, Győr has been reliant on external development decisions, whether foreign capital or national development policy; and its growth has been punctuated by the periodic destruction of its capital stock and the drastic reorientation of its industries. The continuity of development is represented by the city's ability to adapt to new industries through

rapid restructuring, and to provide them with a favorable working environment – an "industrial park" had existed as far back as the late 19th century (Honvári, 2014).

Certain of Győr's location advantages are unique or hard to reproduce: its western gateway position, developed East–West transport connections (motorway, rail and river), and its position in the Vienna–Bratislava–Győr triangle as well as Central Europe's integrated manufacturing core. This position has given Győr an early advantage in FDI attraction, and the availability of a developed, but unused production site was crucial in AUDI's 1993 decision to build its first motor factory. However, the city's ability to exploit historical accidents and virtuous path dependencies can serve multiple policy lessons. Győr could expand into promising industries through investment attraction and collective learning (e.g. automotive manufacturing), retreat from branches with poor prospects (e.g. textiles), and develop support functions to embed these industries into its economy (Jakab, 2014). Through continuous adaptation, it has built a flexible industrial system which is well suited to explore new development paths and realize their advantages.

The Győr Industrial Park (1991–), founded by private investors from Austria, with minority shares owned by the city and Hungarian businesses, has become a strong focus of regional development with over 5,000 employees and 104 companies. The park's offer extends beyond outstanding infrastructure (roadway and rail connections, logistical services and communal services), and integrates the benefits of the entire industrial district in one location. The proximity of AUDI (10,700 employees), automotive suppliers and machine industry offers strong industrial spillovers, although domestic ownership is modest. RÁBA Automotive (2,000 employees), the region's traditional vehicle manufacturer, and a range of medium-sized companies, however, contribute to a diverse firm structure (Rechnitzer – Smahó, 2012).

The skilled labor supply and knowledge of the region, supplemented by Győr's attractiveness in internal migration and cross-border commuting, has offered favorable conditions for investment and expansion. Traditions of strong vocational education, and the less prestigious but business-friendly university help in the reproduction of skilled labor. Győr has also shown deepening university–industry linkages with a growing applied research base: the Research Center of Vehicle Industry, the AUDI Vehicle Engineering Department Group, etc. Learning has enabled local companies to mostly avoid delocalization pressures, and upgrade from labor-intensive towards higher value-added production functions. Although the city's profile of tertiary activities was not outstanding before the mid-2000s, increasing demand brought about by favorable industrial growth has boosted both consumption and business-oriented services.

The institutional system of the city follows the traditional, maintenance- and task-fulfillment oriented model typical of Hungary and broader Central Europe; however, there are signs of an emerging, development-oriented urban regime built on a competent managerial class, consisting of senior company managers, the staff of development organizations (with the chamber of industry and commerce serving as a central coordinator), and city government. Strategic cooperation, particularly in rejuvenating and extending the slowly dwindling pool of skilled labor, is evident.

In the long term, Győr's future hinges on its ability to develop its current location advantages through continuous upgrading, and to avoid lock-in into unsustainable growth paths through maintaining its diversity. The increasing shortage of available labor necessitates an even stronger qualitative turn, and the better use of endogenous resources. Finally, though external capital has been largely beneficial in the city's post-socialist industrial development, there is a need to mitigate the risks of

delocalization through deeper territorial embedding, and effective support for the domestic enterprise network, particularly in high value-added branches and activities.

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